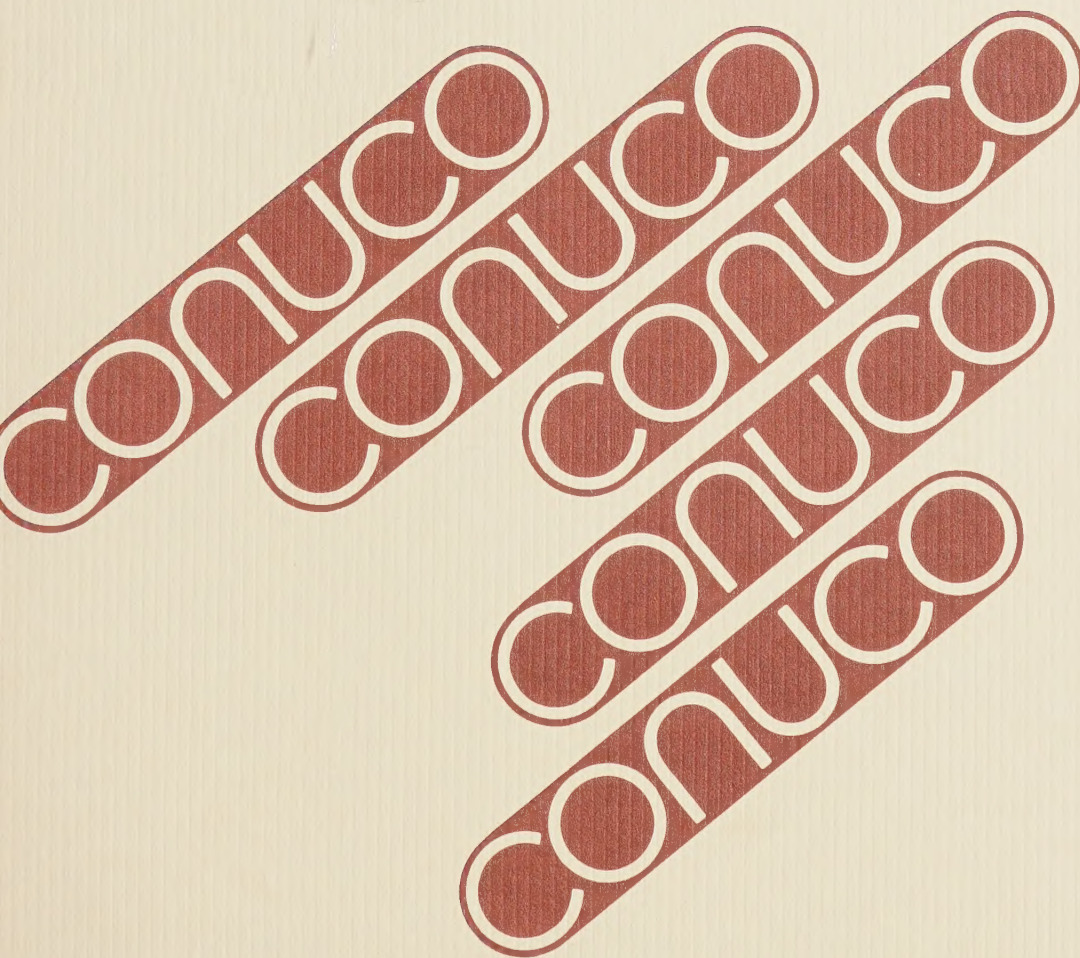


1977 Annual Report





CORPORATE INFORMATION

HEAD OFFICE

#500 Barron Building,
610 - 8th Avenue S.W.,
Calgary, Alberta, T2P 1G5

The Head Hunters (Diesel Heads) Ltd.,
16740 One Hundred Ten Avenue,
Edmonton, Alberta

DIRECTORS

T. N. Dirks
J. R. Kassube
George H. Plewes
M. T. Riback
C. A. Smith

OFFICERS

C. A. Smith, President
T. N. Dirks, Vice-President
J. R. Kassube, Vice-President
C. L. Chapman, General Manager
J. P. Floyd, Secretary

AUDITORS

Thorne, Riddell & Co.

SOLICITORS

McLaws & Company

TRANSFER AGENT AND REGISTRAR

Guaranty Trust Company of Canada
Calgary, Toronto and Montreal

STOCK EXCHANGE LISTING

Montreal Stock Exchange

The Annual Meeting of the shareholders of Conuco Limited will be held at the Mayfair Room, Calgary Inn, in the City of Calgary, Alberta, Canada on Friday, September 30, 1977 at 10:00 a.m.

TO THE SHAREHOLDERS:

On August 11, 1977, Exalta Petroleum Ltd., a Calgary based resource exploration company, completed its acquisition of a substantial interest in shares of Conuco. Past President of Conuco, M. T. Riback, continues his association through his involvement in Exalta and his seat on the Board of Directors of the Company. In addition to the new Directors appointed as a result of Exalta's involvement, we are pleased to announce that Mr. George H. Plewes has joined the Board. Mr. Plewes is the President of Joel Petroleum Corporation, a United States exploration company, and in the past has been associated with a highly successful natural gas producer based in Calgary. These changes in the Board of Directors mark the beginning of a major corporate reorganization, the effect of which is to place a much greater emphasis on natural resource involvement. Conuco has made application for a listing of its shares for trading on the Alberta Stock Exchange and will maintain its listing on the Montreal Stock Exchange.

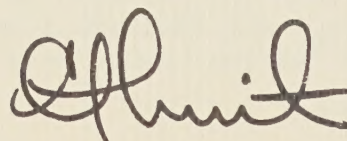
Financially, the year ended March, 1977, produced net earnings of \$96,983. (2¢ per common share). The losses prior to gains from extraordinary items of \$336,097. (8¢ per common share) were in the main due to substantial provisions made in the accounts for losses incurred and expected in connection with the closing of a branch of Head Hunters located in Vancouver during that period, and in connection with the closing of operations in the structural steel division in fiscal 1975. Additionally, a substantial provision for loss was made as a result of past unsuccessful drilling efforts in the exploration division. Working capital generated from continuing operations during the period was \$290,987. (6¢ per common share) and an additional \$475,000. working capital was derived from a gain

on the sale of marketable securities. Capital expenditures of \$1,046,930. represented the major application of working capital during the period; and, of this balance, \$951,000. of expenditures were made to drill wells and acquire natural resource properties.

Throughout the continuing period of reorganization and consolidation your new management remains optimistic. Conuco, located in Western Canada, is positioned to benefit from future developments in the international energy scene. Both the exploration division and the Head Hunter industrial division will be benefited in the event that an Alcan natural gas pipeline through Canada from Alaska into the lower forty-eight United States is approved. At the time of this writing, negotiators from the U.S.A. and Canada are attempting to reach agreements on the construction of such a pipeline and the NEB recommendations to immediately export to U.S.A. markets, natural gas from surplus reserves presently not on production in Western Canada.

Personnel are the lifeblood of this and every corporate endeavour. We are confident that the employees of Conuco will rise to the challenges of the future and will prosper accordingly.

Yours very truly,



C. A. Smith
President

REVIEW OF OPERATIONS:

OIL AND GAS EXPLORATION DIVISION

Conuco oil and gas division is located in Calgary. Typically, past strategy of the division has been to take small working interest positions in regional programs operated by larger, more qualified producers. The division is now in position to originate, locate and develop numerous exploratory prospects on properties owned by the Company and on lands owned by others. In the future, joint venture participants will be involved, to fund drilling operations and land acquisition costs, in such manner as to allow financial participation by Conuco commensurate with the degree of risk involved.

In an evaluation of the estimated Company share of remaining reserves as of June 30, 1977, McDaniel Consultants (1965) Ltd. of Calgary report total proven and probable additional reserves of 4,950 MMCF of natural gas and 2,800 BBLS of crude oil before royalty deductions. Subsequent drilling has, in management's opinion, increased the reserves of the Company.

Additionally as of June 30, 1977, Conuco holds varying working interests in 294,080 gross acres (49,130 net acres) of petroleum and natural gas leases all located in the Province of Alberta.

During the year ended March 31, 1977, the division participated in the drilling of 55 wells of which 28 were completed as successful gas wells and 27 were plugged and abandoned as dry holes. As of March 31, 1977 the Company owned the following wells:

| AREA Province of Alberta | No. of wells in which Conuco owns an interest | Average Working Interest |
|--------------------------------|--|--------------------------------|
| Bruce | 51 | 5.1667% |
| Bellshill Lake | 6 | 50.0% |
| Provost | 12 | 2.6% - 5.1% |
| Spruce Grove | 3 | 7.5% - 15% |
| Dapp | 1 | 75% |
| Ukalta | 1 | 11% |
| Kinsella | 1 | 50% |
| Viking | 2 | 25% |
| Total Wells .. | 77 | |

As at March 31, 1977, 28 of the wells located in the Bruce Area were producing, the balance of 49 wells capable of production were not connected to market facilities.

HEAD HUNTERS INDUSTRIAL DIVISION

Head office of Head Hunters (Diesel Heads) Ltd. is located in Edmonton. Branch offices and plant facilities are located at Edmonton, Alberta, Winnipeg, Manitoba, Kamloops, B.C. and Calgary, Alberta. During the year ended March 31, 1977 unsuccessful operations in Vancouver, B.C. were terminated. Head Hunters is the industry leader in specialized welding and casting repairs and the remanufacture of diesel heads. Several of the branches have successfully expanded into the fields of chroming and hydraulic cylinder repairs during the past year.



LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1977

ASSETS

| | 1977 | 1976 |
|--|--------------------|--------------------|
| CURRENT ASSETS | | |
| Cash | \$ 626,286 | \$ 2,015 |
| Accounts receivable | 556,738 | 1,151,830 |
| Due from director and officer | 24,500 | — |
| Marketable securities, at cost | — | 300,000 |
| Inventories (note 4) | 272,819 | 337,601 |
| Prepaid expenses | 34,929 | 43,226 |
| | <u>1,515,272</u> | <u>1,834,672</u> |
| INVESTMENTS (note 5) | 104,906 | 147,000 |
| RECEIVABLES SUBJECT TO LEGAL PROCEEDINGS (note 3) | 212,555 | — |
| FIXED ASSETS (note 6) | 1,979,454 | 1,440,196 |
| GOODWILL | 55,574 | 55,574 |
| | <u>\$3,867,761</u> | <u>\$3,477,442</u> |

LIABILITIES

| | | |
|--|------------------|----------------|
| CURRENT LIABILITIES | | |
| Bank indebtedness (note 7) | \$ 450,000 | \$ 189,210 |
| Accounts payable and accrued charges | 566,923 | 433,346 |
| Income taxes | 12,079 | 25,520 |
| Current maturities on long-term debt | 64,416 | 64,166 |
| | <u>1,093,418</u> | <u>712,242</u> |
| LONG-TERM DEBT (note 8) | 50,000 | 110,000 |
| DEFERRED INCOME TAXES | 94,290 | 122,130 |

SHAREHOLDERS' EQUITY

| | | |
|---|--------------------|--------------------|
| CAPITAL STOCK (note 9) | | |
| Authorized | | |
| 7,000,000 common shares of no par value | | |
| Issued | | |
| 4,492,525 shares | 1,970,434 | 1,970,434 |
| RETAINED EARNINGS | 659,619 | 562,636 |
| | <u>2,630,053</u> | <u>2,533,070</u> |
| | <u>\$3,867,761</u> | <u>\$3,477,442</u> |

Approved by the Board:

Director

Director



CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED MARCH 31, 1977

| | 1977 | 1976 |
|--|--------------------|--------------------|
| REVENUE | <u>\$3,651,998</u> | <u>\$3,241,946</u> |
| COSTS AND EXPENSES | | |
| Cost of sales and operating | 2,350,001 | 2,032,311 |
| General and administrative | 969,021 | 854,548 |
| Write-down and abandonment of properties | 329,517 | — |
| Depreciation and depletion | 159,030 | 109,824 |
| Interest on long-term debt | 16,105 | 25,522 |
| Other interest | 28,297 | 2,836 |
| | <u>3,851,971</u> | <u>3,025,041</u> |
| | <u>(199,973)</u> | <u>216,905</u> |
| INCOME TAXES | | |
| Current | 29,972 | 35,522 |
| Deferred (recovery) | (81,969) | 89,996 |
| Alberta Royalty Tax Credit | (11,879) | — |
| | <u>(63,876)</u> | <u>125,518</u> |
| EARNINGS (LOSS) FROM CONTINUING OPERATIONS | (136,097) | 91,387 |
| LOSS FROM DISCONTINUED OPERATIONS (note 2) | <u>(200,000)</u> | <u>(97,184)</u> |
| Loss before extraordinary items | <u>(336,097)</u> | <u>(5,797)</u> |
| EXTRAORDINARY ITEMS | | |
| Gain on sale of marketable securities, net of deferred income taxes of \$52,875 | 422,125 | — |
| Gain on sale of fixed assets, net of deferred income taxes of \$28,834 | — | 204,037 |
| Realization of benefits of tax loss carry-forwards | 18,155 | 8,253 |
| Write-down of investment | (7,200) | — |
| | <u>433,080</u> | <u>212,290</u> |
| NET EARNINGS | <u>\$ 96,983</u> | <u>\$ 206,493</u> |
| PER SHARE | | |
| Earnings (loss) from continuing operations | (3¢) | 2¢ |
| Loss from discontinued operations | (5¢) | (2¢) |
| | <u>(8¢)</u> | <u>—</u> |
| Extraordinary items | 10¢ | 5¢ |
| Net earnings | <u>2¢</u> | <u>5¢</u> |



CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED MARCH 31, 1977

| | 1977 | 1976 |
|--|-------------------|-------------------|
| RETAINED EARNINGS AT BEGINNING OF YEAR | \$ 562,636 | \$ 356,143 |
| Net earnings | 96,983 | 206,493 |
| RETAINED EARNINGS AT END OF YEAR | <u>\$ 659,619</u> | <u>\$ 562,636</u> |

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED MARCH 31, 1977

| | 1977 | 1976 |
|--|-------------------|--------------------|
| WORKING CAPITAL DERIVED FROM | | |
| Operations | | |
| Continuing operations | \$ 290,987 | \$ 301,006 |
| Discontinued operations | (200,000) | (97,184) |
| | 90,987 | 203,822 |
| Gain on sale of marketable securities | 475,000 | — |
| Proceeds on sale of fixed assets | 18,028 | 530,108 |
| Realization of investment | 34,894 | 13,000 |
| | <u>618,909</u> | <u>746,930</u> |
| WORKING CAPITAL APPLIED TO | | |
| Purchase of fixed assets | 1,046,930 | 527,055 |
| Repayment of long-term borrowings | 60,000 | 143,922 |
| Reclassification of receivables subject to legal proceedings (note 3) | 212,555 | — |
| | <u>1,319,485</u> | <u>670,977</u> |
| INCREASE (DECREASE) IN WORKING CAPITAL | (700,576) | 75,953 |
| WORKING CAPITAL AT BEGINNING OF YEAR | <u>1,122,430</u> | <u>1,046,477</u> |
| WORKING CAPITAL AT END OF YEAR | <u>\$ 421,854</u> | <u>\$1,122,430</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 1977

1. ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Athabasca Valley Development Corporation Ltd., Collins Steel Products Limited, Oil Field Specialty Welding Ltd. and The Head Hunters (Diesel Heads) Ltd. including its wholly-owned subsidiaries Industrial Casting Repairs Ltd. and Kamloops Rebuilders Ltd.

(b) Petroleum and Natural Gas Operations

The Company follows the full-cost method of accounting for petroleum and natural gas operations whereby all costs of exploration for and development of oil and gas reserves are capitalized by area of interest. Such costs include land acquisition costs, geological and geophysical expense, carrying charges of non-producing property and costs of drilling both productive and non-productive wells. These costs are amortized on the unit of production method based on estimated recoverable quantities of oil and gas in each area of interest or are written off to earnings if exploration activities in any area prove unsuccessful.

(c) Goodwill

The Company does not amortize goodwill, all of which was acquired prior to March 31, 1974 because, in the opinion of management, there has been no diminution in its value.

2. DISCONTINUED OPERATIONS

During the year ended March 31, 1975 the Company ceased operations in its structural steel division. The operating results of this division have been shown separately in the consolidated statement of earnings under the heading "Loss from discontinued operations." The loss in the current year arises from the provision of additional possible losses on the ultimate realization of amounts receivable (see note 3) and the loss in the prior year arises from the completion of contracts by the division and the liquidation of operating assets.

3. LEGAL PROCEEDINGS

A subsidiary of the Company is involved in legal proceedings respecting certain contracts undertaken by its structural steel division, now discontinued. These proceedings involve claims initiated by the subsidiary for payment of amounts totalling \$527,555 due to it under the contracts and counter claims against the subsidiary for alleged unsatisfactory performance under the contracts. The ultimate realization on the final settlement of these proceedings cannot be determined at this time.

The amounts due to the subsidiary under the contracts have been reclassified as non-current assets in these financial statements under the caption "receivables subject to legal proceedings" and an allowance for possible loss of \$315,000 has been recorded of which \$200,000 was provided during the year. No provision has been made in these financial statements for the claims made against the subsidiary.

4. INVENTORIES

Inventories are valued at the lower of cost and net realizable value and comprise the following:

| | 1977 | 1976 |
|--|------------------|------------------|
| Land held for sale | \$ 11,381 | \$ 22,762 |
| Materials and miscellaneous supplies | 261,438 | 314,839 |
| | <u>\$272,819</u> | <u>\$337,601</u> |

5. INVESTMENTS

| | 1977 | 1976 |
|--|------------------|------------------|
| 10% mortgage receivable | \$138,306 | \$170,000 |
| Other, at cost less amount written off | 2,800 | 10,000 |
| | 141,106 | 180,000 |
| Current maturity included in accounts receivable | 36,200 | 33,000 |
| | <u>\$104,906</u> | <u>\$147,000</u> |

6. FIXED ASSETS

| | | 1977 | | 1976 |
|---|--------------------|---|--------------------|--------------------|
| | Cost | Accumulated Depreciation and Depletion | Net | Net |
| Buildings | \$ 945 | \$ 437 | \$ 508 | \$ 535 |
| Equipment | 773,288 | 494,215 | 279,073 | 290,662 |
| Automotive | 53,530 | 30,058 | 23,472 | 22,017 |
| Furniture and fixtures | 33,525 | 19,039 | 14,486 | 14,558 |
| Leasehold improvements | 146,074 | 65,561 | 80,513 | 55,685 |
| | 1,007,362 | 609,310 | 398,052 | 383,457 |
| Land and land rights | 18,000 | — | 18,000 | 18,000 |
| Petroleum and natural gas properties and equipment | 1,660,485 | 97,283 | 1,563,202 | 1,038,539 |
| Mining properties | 200 | — | 200 | 200 |
| | <u>\$2,686,047</u> | <u>\$ 706,593</u> | <u>\$1,979,454</u> | <u>\$1,440,196</u> |

7. BANK INDEBTEDNESS

Bank indebtedness, including the bank loan classified as long-term debt, is secured by a general assignment of accounts receivable and the 10% mortgage receivable, by certain petroleum and natural gas properties, and by the guarantee of a shareholder.

8. LONG-TERM DEBT

| | <u>Interest Rate</u> | <u>Maturity</u> | <u>1977</u> | <u>1976</u> |
|---|---------------------------------|-----------------|------------------|------------------|
| Conuco Limited | | | | |
| Bank loan (repayable in equal monthly instalments) | 9 ³ / ₄ % | 1979 | \$110,000 | \$170,000 |
| Subsidiaries | | | | |
| Note payable | 6% | 1977 | 4,416 | 4,166 |
| | | | 114,416 | 174,166 |
| Current maturities | | | 64,416 | 64,166 |
| | | | <u>\$ 50,000</u> | <u>\$110,000</u> |

9. CAPITAL STOCK

At March 31, 1977, there were 196,000 shares of the Company reserved under an employee stock option plan under which options have been granted to officers and employees to purchase 130,000 shares. These options are exercisable at \$.40 per share and expire in November 1977.

10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid during the year by the Company and its subsidiaries to the Company's directors and senior officers totalled \$70,475.

11. ANTI-INFLATION LEGISLATION

The Company is subject to dividend restrictions under provisions of the Federal Anti-Inflation Act. Under these restrictions, the Company may not, during the period October 14, 1976 to October 13, 1977, declare or pay dividends in excess of \$51,623.



AUDITORS' REPORT

To the Shareholders of
Conuco Limited

We have examined the consolidated balance sheet of Conuco Limited as at March 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

As discussed in note 3 to the financial statements, a subsidiary is involved in legal proceedings respecting certain contracts undertaken by it. The adjustments, if any, which may be required on the final settlement of these proceedings cannot be reasonably determined.

In our opinion, subject to such adjustments, if any, which may be required on the settlement of the legal proceedings referred to in the preceding paragraph, these consolidated financial statements present fairly the financial position of the company as at March 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
June 6, 1977

THORNE RIDDELL & CO.
Chartered Accountants



CONUCO LIMITED AND SUBSIDIARY COMPANIES

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